HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Gatineau[1]

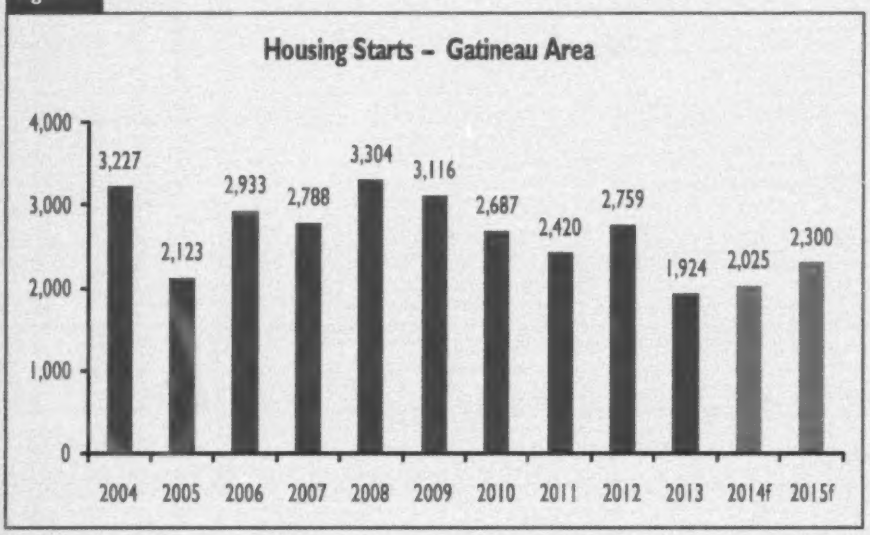
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights

- Economic and demographic conditions will limit demand on Gatineau's housing market.
- Centris® sales will continue to fall in 2014.
- A slight rebound in housing starts is expected this year.
- The rental apartment vacancy rate will rise above 6 per cent.

Figure 1



Source: CMHC f: CMHC forecasts

[1] Quebec part of Ottawa-Gatineau CMA

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 30, 2014.

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Housing starts expected to post a small gain

In 2013, housing starts in the Gatineau area decreased by 30 per cent from a year earlier, to 1,924 units. Several factors contributed to this decline, including the job losses in the area, the easing of the resale market and the relatively high number of unsold new dwellings.

In 2014, total housing starts in the Gatineau area will rise by about 100 units, to 2,025 units (+5 per cent). This level will still be well below the annual average of recent years[2] (about 2,800 starts).

In the case of single-detached houses, starts fell by 31 per cent in 2013 (to 475 units). Most of these units were in fact started in the municipalities surrounding the city of Gatineau, where single-detached homes dominate the housing market. In the municipality of Gatineau, fewer and fewer of these houses are being built. The intensification trend in Gatineau is one of the factors contributing to this decline.

In 2014 and 2015, the rate of single-detached home construction will remain stable in relation to the level recorded in 2013 (some 500 units). This number of starts will be essentially in line with the volume of construction required to meet the demographic needs of the municipalities surrounding Gatineau.

In the multi-unit (semi-detached, row and apartment) housing segment, starts should reach 1,535 units in 2014 (versus 1,449 in 2013).

This small increase in multi-unit housing starts will be essentially attributable to the gain in new condominium apartments (from 492 units in 2013 to 575 in 2014). The start of construction on a few major projects, with some in the Hull sector, will be the main reason for this increase.

As for rental apartments,[3] the relatively high vacancy rate currently prevailing in the area would normally cause a significant decrease in starts of this type. However, given that the increase in the rate is recent and that contractors in the area likely already have some rental housing projects in the works, rental apartment starts should decrease only slightly this year (from 587 units in 2013 to 525 in 2014). The more pronounced adjustment in rental housing starts will rather occur next year (to about 375 units).

Just like the level of rental apartment starts, the rate of semi-detached and row home construction will show little change between 2013 and 2014 (about 400 units). Even though such dwellings will continue to be favoured by their greater density than single-detached houses, the high inventories of unsold new semi-detached and row homes will deter builders from picking up their pace of construction in this market segment, in order to allow time for the unsold units to be absorbed.

In 2015, the improved economic conditions in the area should support demand for new housing. The decrease in the number of unsold new dwellings and the modest tightening of the resale market should allow builders to slightly increase their rate of production in the area. The construction of multi-unit housing (condominiums, semi-detached houses and row homes) will again be favoured within the city of Gatineau. In all, 2,300 starts are expected in 2015, still well below the average of recent years.

Centris® sales to fall in 2014 and then rise slightly in 2015

In 2013, Centris® transactions registered in the Gatineau area dropped by 8 per cent from a year earlier, to 3,545 sales, their lowest level in over 10 years. And no market segment was spared by this decrease. The reasons for this decline were generally the same as those given in the previous section for the new home market.

In 2014, it is anticipated that Centris® transactions will fall again, this time by 4 per cent, to 3,400 sales. In fact, the first-quarter figures already show a decrease of 5 per cent. The drop expected this year will be mainly due to the modest employment situation for people aged 25 to 44 in the area.

A different trend is to be expected on the supply side, as active listings should reach a new peak in 2014, at 3,000 units, up by 7 per cent over last year. This increase in the supply of existing homes will result mainly from the fact that properties for sale will be staying on the market longer.

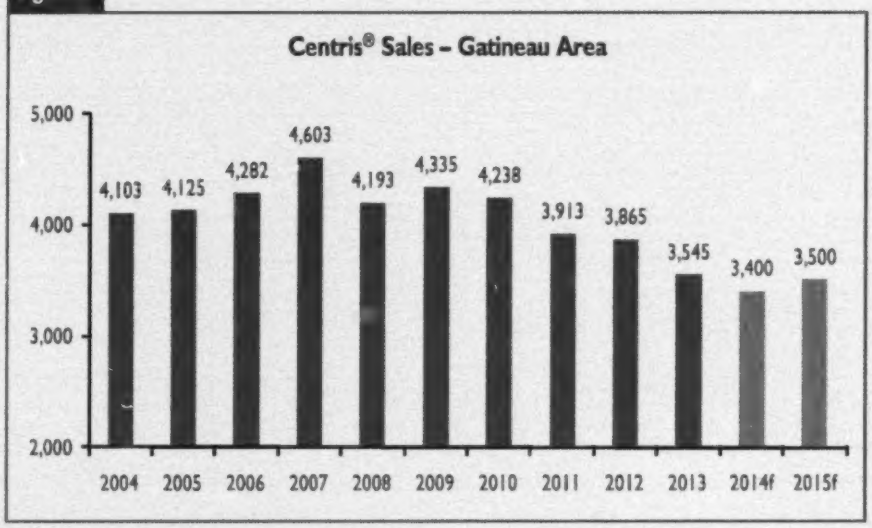
With sales on the decline and listings on the rise, the resale market in the Gatineau area will ease in 2014 and be favourable to buyers. The easing of the market will cause the average Centris®

[2] Average for the period from 2002 to 2012.
[3] In this case, rental apartments include duplex units.

price to stagnate, at $243,500. The condominium market will remain the most favourable to buyers, and the average price of such dwellings will very probably register a small decrease.

In 2015, Centris® transactions will increase for the first time in more than five years, reaching 3,500 sales (+3 per cent). The faster acceleration of the economy, the stronger employment growth and the greater increase in incomes will be the key factors accounting for this rise. The level of sales will however remain low from a historical standpoint. As well, with the abundant supply of existing properties for sale on the market, the growth in the average price will once again be relatively minimal.

Figure 2



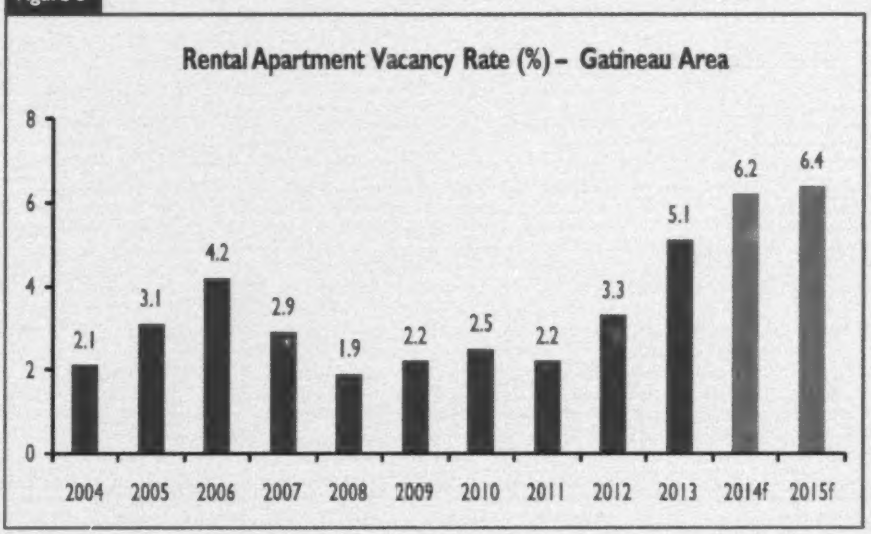
Source: QFREB, statistics Centris® f: CMHC forecasts

Rental market to keep easing

The rental housing vacancy rate in the Gatineau area was 5.1 per cent in 2013, up by almost two percentage points over 2012. In 2014 and 2015, this rate should continue to rise, attaining 6.2 per cent and 6.4 per cent, respectively. The average monthly rent for two-bedroom apartments, for its part, will reach $745 this year and then $750 next year.

The increase in the percentage of vacant units will be due mainly to the significant decrease in Gatineau's interregional net migration. In fact, recent data[4] revealed that about 70 per cent of Quebec households who come to settle in the Gatineau area opt for rental housing when they arrive.[5]

Figure 3



Source: CMHC f: CMHC forecasts

Another factor that will contribute to the easing of the rental market is the relatively significant growth in the supply of rental housing units on the market. While annual rental apartment starts hovered around 350 units on average from 2009 to 2011,[6] nearly double that number were enumerated in 2012 and 2013. In addition, rental condominiums are also providing increasingly strong competition for traditional rental apartments.[7]

[4] Source: Statistics Canada, 2001 National Household Survey; CMHC, calculations.

[5] There are unfortunately no specific data on the tenure of people who leave Gatineau; however, given that these people are in general relatively young, it is plausible to believe that many of them were renters.

[6] In this case, rental housing starts exclude units in retirement homes.

[7] According to an analysis of the property assessment rolls for condominiums located in the Gatineau area.

Demand for rental housing will be supported only by the high (but stable) number of immigrants that the area will continue to welcome and by the slowdown in the movement to homeownership that will take place in Gatineau.

On the retirement home market, the vacancy rate, which was 12.2 per cent in 2013 (down from 2012), should continue to fall this year. This decrease will result from the relatively stable supply of seniors' units and the slight increase in the number of people aged 75 or older in the area, who make up the main client group for retirement homes.

Economic trends: weak growth in employment and small decrease in net migration

In 2013, the number of people working in Gatineau reached 169,600 (-2 per cent). Employment among those aged from 25 to 44 was in fact down by 10 per cent. This weakening of the labour market was due mainly to the job cuts in the public sector.

This year, with the public sector job reduction process coming to an end, the Gatineau area should post a small gain in employment (+1.5 per cent). However, the number of jobs among people aged from 25 to 44 will likely not increase sufficiently to make up for the losses recorded in 2013. In 2015, with the overall brighter economic outlook across Quebec, the number of jobs will grow more rapidly and reach 175,000 in the Gatineau area (+2 per cent).

The sluggish labour market also had an impact on net migration in the area, which went from an average of around 2,900 people per year, for the period from 2002 to 2011, down to 1,700 in 2012 and 2013. The interprovincial and interregional net migration levels were in fact responsible for this decrease, since the international result remained relatively stable. In 2014 and 2015, net migration will keep falling, but more slowly. The decrease will limit demand on the housing market, especially in the rental segment.

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	Employment in the area will grow slightly in 2014. However, if this gain is not favourable to people aged from 25 to 44, demand on the housing market will remain limited.
Income	Average weekly earnings in the Gatineau area decreased in 2013. The small increase expected this year will help support housing demand.
Natural population growth	The number of births anticipated this year in the Gatineau area should remain relatively stable, which will encourage some Gatineau households to change tenures.
Resale Market	The significant supply on the resale market will limit demand for new housing in 2014.
Net migration	The decrease in net migration will curb demand on the new home market this year.

Forecasts risks

- Should the employment growth expected this year in the Gatineau area lead to a significant increase in confidence among Gatineau households, housing starts and Centris® sales could be higher than anticipated.
- Foundations should be laid for a few major condominium projects toward the end of 2014. However, if these projects are somewhat delayed and end up getting under way only in 2015, starts could be lower this year.

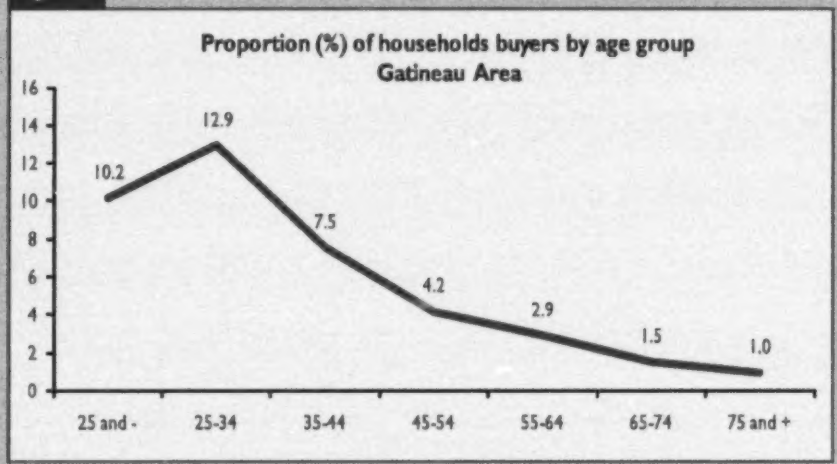
Spotlight on...

Gatineau area buyer profile

In this report, it was mentioned that the employment situation among people aged from 25 to 44 was one of the factors accounting for the modest housing demand. In support of these remarks, graph 4 indicates the annual percentages of households, by age group, who buy homes in the Gatineau area.[8]

It can be seen that households aged 44 or under—a group that includes many first-time homebuyers—account for a relatively significant portion of the housing demand in Gatineau. In fact, every year, about 10 per cent of households aged under 35 buy homes in the area, as do 8 per cent of those aged from 35 to 44. For households past their mid-forties, the proportion of homebuyers drops below the 4-per-cent mark.

Figure 4



Source: Statistics Canada, Households National Survey
CMHC computation

In absolute percentage terms, households aged 44 or under represent 70 per cent of all homebuyers in the area, even though they account for only 40 per cent of all households. The economic and demographic prospects for the people in this age group can therefore greatly influence the level of activity on the residential market in the Gatineau area.

[8] Data for 2011.

Forecast Summary Gatineau CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	784	688	475	490	3.2	450	-8.2
Multiples	1,636	2,071	1,449	1,535	5.9	1,850	20.5
Starts - Total	2,420	2,759	1,924	2,025	5.2	2,300	13.6
Average Price ($):							
Single-Detached	346,788	366,940	380,056	384,000	1.0	389,000	1.3
Semi-Detached	190,966	206,050	224,011	228,000	1.8	232,500	2.0
New Housing Price Index (% chg.) (Ottawa-Gatineau)	3.0	2.6	0.4	1.1	-	2.0	-
Resale Market[1]							
Centris® Sales	3,913	3,864	3,544	3,400	-4.1	3,500	2.9
Centris® Active Listings	7,165	7,706	7,970	8,000	0.4	8,050	0.6
Centris® Active Listings	2,017	2,353	2,806	3,000	6.9	3,050	1.7
Centris® Average Price ($)	231,748	238,807	243,330	243,500	0.1	245,000	0.6
Rental Market[2]							
October Vacancy Rate (%)	2.2	3.3	5.1	6.2	-	6.4	-
Two-bedroom Average Rent (October) ($)	731	743	744	745	-	750	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	172,500	173,000	169,600	172,000	1.4	175,000	1.7
Employment Growth (%)	2.2	0.3	-2.0	1.4	-	1.7	-
Unemployment rate (%)	6.8	6.1	6.4	6.4	-	6.2	-
Net Migration	2,927	1,793	1,566	1,500	-4.2	1,475	-1.7

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2014-2015)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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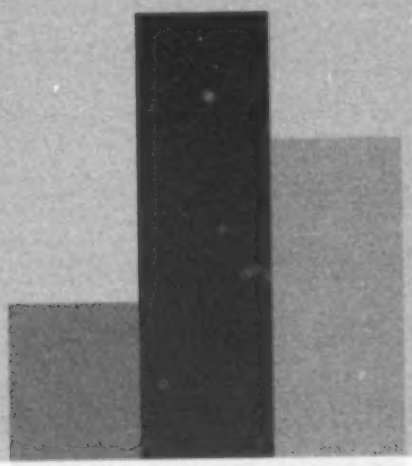

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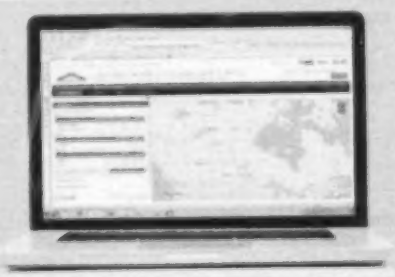

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